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TAGS: PREL ETRD ECON UY

SUBJECT: US-URUGUAY TRADE AGENDA: VAZQUEZ CONTINUES TO SHAPE THE DEBATE AND BUILD CONSENSUS

REF: A) MONTEVIDEO 774; B) MONTEVIDEO 746

Classified By: Charge d'Affaires James D. Nealon for reasons 1.4 (b) and (d).

¶1. (C) Summary: President Vazquez has now expanded the debate beyond a trade agreement with the U.S. by seeking similar accords with India and China. In a meeting with the Charge, Industry Minister Lepra confirmed that Vazquez is very much in charge and determined to succeed. Lepra said he understood that the Peru TPA was likely to form the basis of an FTA with the U.S., but asked for some flexibility on the text, "as was done with the BIT", in order to provide Vazquez with political cover.

As for Mercosur's attitude regarding an FTA, Lepra said that Vazquez had talked with Lula, with whom he would meet later on this month. Vazquez continues to shape the debate and build a broad national consensus for a trade policy focused on agreements with the world's major markets. End Summary.

¶2. (U) On August 28, Vazquez met with the Indian Ambassador to discuss the possibility of negotiating a trade agreement, and the next day met with the Chinese Ambassador for the same purpose. Uruguay is committed to free trade, Vazquez said to the press, and India and China are, along with the United States, the major markets of interest outside of Mercosur. "We are aiming at a trade policy based on two basic concepts: a focus on the region and the opening of new extra-regional markets," he noted. On August 31, Vazquez met with the five ministers leading the technical groups on trade (Economy, Industry, Agriculture, Tourism and Foreign Affairs) to chart the way forward.

¶3. (C) Industry Minister Jorge Lepra called the Charge for a meeting on September 1 to share what had happened in the ministerial meeting and to discuss the way forward. President Vazquez uses Lepra as his de facto Foreign Minister in dealing with the U.S. Lepra said Vazquez had reminded his ministers of his May 4 meeting with President Bush and had recalled the U.S. President's offer to discuss an FTA. Lepra said Vazquez had appeared very much in charge and on track on the FTA issue. Asked about news from Uruguay's Mercosur partners, Lepra said that Vazquez had talked to Lula and would be meeting with him sometime in September in the south of Brazil. "I don't know about Itamaraty," he said, "but Lula will support Vazquez."

Lepra also believed that Vazquez had talked to Chavez, whom AgMin Mujica would soon visit in Caracas.

¶14. (C) Lepra planned to travel to Washington, possibly on September 14-15, to prepare the October 2-3 JCTI in Montevideo. Lepra said he understood that the basic text of an agreement would most likely be the Peru FTA, and he implied that Vazquez was aware of that as well. He asked several times for flexibility to alter minor elements of the text ("like we did with the BIT") so as to provide Vazquez with political cover (i.e. putting Uruguay's imprint on the text to counter the perception that the GOU is accepting a document without negotiation). Charge replied that this was something Lepra should raise with USTR when in Washington.

¶15. (U) A couple of days earlier, the new Brazilian Ambassador to Uruguay, Jose Felicio, was asked in a press interview about his country's position on an Uruguay-U.S. FTA. Felicio was very cautious in his reply, as Brazilian ForMin Celso Amorin's shoe-pounding in June had been perceived here as a blatant interference in internal affairs. "We prefer to maintain Resolution 32/00 (the resolution whereby Mercosur members agree to negotiate as a bloc) in terms of commercial negotiations", Felicio said, "but this does not impede countries from making requests in a sovereign manner and coming to Mercosur to discuss things." While Felicio pointed out that Brazil's preference was to negotiate as a bloc, "if there are countries that want to do otherwise, we will study specific cases."

¶16. (U) Referring to Amorin's statements here in June, Felicio cautioned that they "were based on the known formats for free trade. But we don't know what is being negotiated (between Uruguay and the U.S.)." Asked specifically if an FTA with the

U.S. is compatible with Mercosur, he said, carefully, that "it's not compatible, but that's my opinion." Felicio acknowledged that President Vazquez "will know how to preserve Mercosur" and "has the obligation to defend the interests of Uruguayans."

¶17. (U) At a conference held in Montevideo this week, former Argentine Economy and Finance Minister Roberto Lavagna opined that it was important for Argentina and Brazil to make an effort to facilitate Uruguay's negotiation of an FTA with the U.S., if that is what Uruguay desired. Legally, it can be done, Lavagna said, as the existing FTA between Uruguay and Mexico clearly shows. He noted that what is needed now is political will from Argentina and Brazil.

¶18. (C) On August 30, Charge met with former Economy Minister and influential Colorado Senator Isaac Alfie, who confirmed that the GOU could count on the three Colorado senators, should an FTA come up to a vote. Looking at the Frente Amplio senators, Alfie saw only five votes against (one Communist, two Socialists and two MPP). Assuming that the opposition Blancos vote in favor -and Blanco Leader Laranaga told USTR's Eissenstat that they favor a trade deal-, Alfie predicted support by 26 out of 31 votes in the Senate.

¶19. (U) The radical PIT-CNT labor union is gearing up to oppose a trade agreement with the U.S. The PIT-CNT's President Juan Castillo said the union would foster discussion, promote debates and invite Mexican and Peruvian speakers to outline the negative effects that FTAs will have on the Uruguayan economy. Castillo said that President Vazquez had written to the union to explain his decision to keep the major political parties informed of the government's progress, but to keep the PIT-CNT out of the loop. When there are concrete results and the JCTI reaches a conclusion on the path to follow, Vazquez is said to have written, "social actors" would be informed.

¶10. (C) Comment: Vazquez has firmly taken the reins of the trade agenda and appears determined to succeed. He has now expanded the debate, until now limited to discussion of a trade agreement with the U.S., to include talks of agreements with India and China. He has informed the major political parties (ref B) of his progress and ministerial technical groups have consulted with the business community. Vazquez is shaping the debate and building consensus. As this consensus evolves -and

momentum appears to be mostly positive-, it may become increasingly difficult for the domestic opposition to an FTA, all of it within Vazquez's own Frente Amplio, to gain traction and for Uruguay's Mercosur partners to oppose what is starting to emerge as a consensus national trade policy of opening to world markets. End Comment.

NEALON